Five years on from Brexit: Lessons for investors

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It was all so predictable. The very second the England vs Scotland match was over the newspaper headlines wrote themselves. And although social media is much younger, the same, predictable memes were on standby, waiting for the final whistle.

There was no space for other explanations. Maybe it was just a bad day at the office. Perhaps Scotland were well prepared and well drilled. Or possibly the pressure got to the players. It didn't matter; there's now a clamor to *do something, anything*. Drop this player, change that formation, or sack the manager!

Financial markets can sometimes be similar. When negative news hits (and there's always lots about), it is easy to worry about the impact on portfolios, and to look for an action to take. This is particularly true of things that happen in the UK – one can easily extrapolate our day-to-day experiences to our investments.

And right now, there is no shortage of bad news. Multiple COVID variants have delayed 'Freedom Day' and possibly the UK economic recovery. A prominent ex-central banker recently warned about the "beast of inflation". And that's before we get to the latest trade spat with the EU.

So, we face a strong temptation in the face of bad news in the UK to do *something, anything*.

But, when running multi-asset portfolios, that can often be the worst thing to do. On the five-year anniversary of the Brexit referendum, it's helpful to think about why overreacting is so often a mistake. As our CIO Martyn Surguy regularly reminds us, *"don't just do something, stand there"*.

Equities – dominated by US and China
Some look at 7IM portfolios and see a large UK equity weight. However, around three-quarters of the revenues of global commodity producers, global banks, and global pharmaceutical companies, listed in the UK, come from abroad.

Global equities are driven by the global economy. And the global economy is driven by the two biggest economies in the world. Global corporate revenue exposures are dominated by the US and China. The European Union is certainly up there but the threat of exports to the UK falling off a cliff were never enough to trouble equity markets.

Corporate bonds – not fussed about the UK
The 7IM portfolios also have an allocation to sterling corporate bonds. While this sounds like more exposure to the UK, it's not so clear cut. The top 10 issuers in the asset class include EDF, AT&T, Wells Fargo and Rabobank… not exactly UK high street names. These non-UK companies were always going continue to service their debts, regardless of any UK-specific uncertainty.

Government bonds – there to protect
One of the strongest performing asset classes in the immediate post-Brexit aftermath was UK government bonds. As UK economic growth suffered the Bank of England cut rates to zero and promised not to lift them as long as there was Brexit uncertainty. The fall in rates pushed up UK bond prices. These bonds did exactly what they are in the portfolio to do – protect against uncertainty.

Alternatives – unrelated to equities, unrelated to bonds
The make up of our alternatives bucket has changed over the last five years but one thing has remained constant. We aim for this part of the portfolio be uncorrelated to other parts of the portfolio. That is, no matter where bonds or equities move, our alternatives investments would forge their own path. By construction, they ignored Brexit.

Foreign currencies – love UK uncertainty
Everyone forgets about currencies until they go on holiday. Yet one of the most important elements of a diversified portfolio is the protection on offer from foreign currencies.

The Japanese yen and the US dollar tend to increase in value, as investors head for safe and stable nations. In specific situations, such as Brexit, when the pound falls it almost doesn't matter where else in the world you go. Not just the dollar or yen but also the Singaporean dollar, the South African rand and the Thai baht. In other words, when UK uncertainty ratchets up this is likely to weigh down on sterling and actually help portfolios.

The last five years has seen a string of bad news hit the UK. Moving deadlines, belligerent politicians and eleventh-hour deals all created uncertainty. This felt like a stressful time to be a UK-based investor. But those who remained invested and left their portfolios untouched came out well – sometimes not *doing something, anything* is actually all part of the plan.